United States Court of Appeals

for the Second Circuit

APPELLANT'S REPLY BRIEF

75-7517|7580

B P/S

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

N. V. MAATSCHAPPIJ VOOR INDUSTRIELE WAARDEN,

Petitioner-Appellee,

against

A. O. SMITH CORPORATION,

Respondent,

and

ARMOR ELEVATOR COMPANY, INC.,

Respondent-Appellant.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT,
FOR THE SOUTHERN DISTRICT OF NEW YORK

REPLY BRIEF FOR RESPONDENT-APPELLANT, ARMOR ELEVATOR COMPANY, INC.

SACKS, MONTGOMERY, MOLINEAUX & PASTORE
Attorneys for Respondent-Appellant
437 Madison Avenue
New York, New York 10022

William J. Pastore
-of Counsel-

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IN THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

Nos. 75-7517 and 75-7580

N. V. MAATSCHAPPIJ VOOR INDUSTRIELE WAARDEN,

Petitioner-Appellee,

v.

A. O. SMITH CORPORATION and ARMOR ELEVATOR COMPANY, INC.,

Respondent-Appellant.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT,
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REPLY BRIEF FOR THE RESPONDENT-APPELLANT, ARMOR ELEVATOR COMPANY, INC.

PRELIMINARY STATEMENT

This brief is submitted in reply to the brief of the appellee, MVIW and in further support of Armor's contentions that the District Court's orders of August 6, 1975 and October 15, 1975 should be reversed or modified and that arbitration proceedings should be stayed pending the conclusion of court proceedings.

ARGUMENT

Although separate orders of the District Court and separate appeals are herein involved, both of the District Court's orders are part of a single proceeding brought by MVIW to compel arbitration under 9 U.S.C. §4.

In the August 6, 1975 order, despite the prayer in Armor's pleading for the District Court to retain jurisdiction of the matters therein alleged by Armor (A. 133), the Court failed to do so. With respect to the antitrust issues raised therein by Armor (A. 135, ¶9) and thereafter amplified in its amended pleading (A. 180), the District Court did not make a determination until it issued its October 14, 1975 Endorsement (A. 217) after Armor filed its notice of appeal of the August 6, 1975 order (A. 1).

The Court below still has not spoken as to the proper forum for the many other issues raised by Armor and therefore the appeal of the August 6, 1975 order has been asserted in order to obtain a judicial clarification of exactly which issues are for the arbitrators and which for the Court. The purpose of the appeal is to expedite the arbitration proceeding once it starts.[1/]

1/ Neither of the appeals before this Court have in any way delayed the arbitration proceeding.

The second appeal is based upon the District Court's order of August 15, 1975 wherein it stayed all court proceedings until arbitration was completed and denied Armor's application to stay arbitration until the court proceedings were concluded. Armor appealed this order because the antitrust issues and the patent law issues asserted by it in its pleadings are clearly threshold issues that must be determined by the Court before the arbitrators can consider the issues within the narrow scope of their authority under the arbitration provision. Furthermore, the non-arbitrable issues permeate the entire controversy to the extent that the arbitrators will not be able to consider the arbitrable issues without also considering the non-arbitrable issues.

If the arbitration proceeding is concluded before the District Court action is concluded regardless of its outcome, a trial will then be required with respect to the antitrust issues, patent issues and damages both ordinary and punitive. If, instead, the matters before the Court are first concluded, it is altogether possible that no arbitration will be necessary.

Furthermore, if arbitration is to proceed before the District Court makes its determination of the non-arbitrable issues, any award that the arbitrators might render will be contingent upon the District Court's determination of non-arbitrable issues, and in the event of a money award, a completely new arbitration will be required. 2/

The appeal of the October 15, 1975 order, therefore, is to remove the likelihood that the arbitrators will consider non-arbitrable issues and to avoid the possibility of either an unnecessary arbitration or the need for a second arbitration proceeding.

MVIW chooses to base its opposition to the appeals primarily upon the obvious "red herring" that the antitrust issues raised by Armor were merely raised as afterthoughts in order to avoid arbitration. In so urging, MVIW would like this Court to ignore Armor's prayer for relief contained in the very first paper it submitted in response to MVIW's petition in which Armor prayed for "A declaratory judgment that the Licensing Agreement is illegal, null and void as an undue restraint on trade and against public policy and, in any event, unenforceable against the respondents." (A. 135).

2/ The severability clause will further complicate any money awards by the arbitrators.

MVJW attempts to divert this Court's attention from the fact that the order to show cause with petition attached was signed on June 24, 1975, exactly one week after the date of its Demand for Arbitration, that the order to show cause and petition was not served on Armor until Friday, June 27, 1975 even though it was returnable on Monday, June 30, 1975. It seeks to have this Court ignore that Armor's responsive papers were prepared over a weekend and that Armor subsequently amplified them in great detail, as Armor had the right to do under Fed. R. Civ. P. 15(a). MVIW also makes the transparent attempt to divert the Court's attention from the fact that at least one of the charges of antitrust violation is apparent on the face of the License Agreement.[3/]

The remainder of this reply brief will respond to points raised in MVIW's brief which were not covered in Armor's main brief.

3/ See Point IIC of appellant's main brief.

POINT I

THE DISTRICT COURT ORDER ENTERED OCTOBER 15, 1975 IS APPEALABLE

A. Under 28 U.S.C. §1291.

MVIW's brief places great stress upon the fact that the only proceeding before the District Court was its proceeding to compel arbitration under 9 U.S.C. §4. It also relies upon the principle enunciated in Standard Chlorine of Delaware v. Leonard, 384 F.2d 304 (2d Cir. 1967).

The rule as set forth in Standard Chlorine is as follows:

> An order staying or refusing to stay proceedings in the District Court is appealable under §1292(a)(1) only if (A) the action in which the order was made is an action which, before the fusion of law and equity, was by its nature an action at law; and (B) the stay was sought to permit the prior determination of some equitable defense or counterclaim.

Standard Chlorine represents this Court's attempt to rationalize the numerous inconsistent decisions concerning the appealability of stay orders under 28 U.S.C. §1292(a)(1).

However, the Standard Chlorine court distinguished between the situation wherein a stay order is entered in an

independent proceeding and one where it was entered as a collateral matter in a pending case and the rule therein enunciated is limited to stay orders entered as a collateral matter in a pending case. City of Naples v. Prepakt Concrete Co., 405 F.2d 511 (5th Cir. 1974).

In Standard Chlorine, the motion to stay arbitration was made by Leonard for a continuing suit initiated by Standard. Judge Kaufman noted in his opinion at 405 F.2d 309 that the result in the case would have been different had the motion been made as a part of a separate proceeding brought under 9 U.S.C. §4 citing Farr & Co. v. Cia. Intercontinental de Navagacion, 243 F.2d 342 (2d Cir. 1957).

A proceeding to compel arbitration under 9 U.S.C. §4 is an independent action and an order staying a court action pending arbitration in a proceeding brought under 9 U.S.C. §4 is appealable as a final order under 28 U.S.C. §1291. 9 Moore's Fed. Prac. §110.20 [4.-1].

It is only in those cases wherein motions for a stay are filed in pending actions that the Standard Chlorine rule is applied. This concept was followed in Diematic Mfg. Corp. v. Packaging Industries, Inc., 516 F.2d 975 (2d Cir.

1975), cert. den. ___ U.S. _____. In Diematic, the action was initiated in the Southern District of New York by Diematic before Packaging moved for a stay of the suit under Fed. R. Civ. P. 6 and 12 (b)(1). This is quite unlike the situation at hand wherein MVI sought to compel arbitration under 9 U.S.C. §4 and then to stay any court proceedings under 9 U.S.C. §3 (A. 178).

Accordingly, the October 15, 1975 order staying proceedings in the District Court is appealable. See also Chatham Shipping Co. v. Furtex Steamship Corp., 352 F.2d 291 (2d Cir. 1965); Clark v. Kraftco Corporation, 447 F.2d 933 (2d Cir. 1971); Dickstein v. duPont, 443 F.2d 783 (1st Cir. 1971); Krauss Bros. Lumber Co. v. Louis Bossert & Sons, 62 F.2d 1004 (2d Cir. 1933); in re Canadian Gulf Line, 98 F.2d 711 (2d Cir. 1938); in re Utility Oil Corp., 69 F.2d 524 (2d Cir. 1934) cert. den. Petroleum Nav. Co. v. Utility Oil Corp., 292 U.S. 655, 54 S.Ct. 866, 78 L. Ed. 1504.

B. Under 28 U.S.C. §1292(a)(1).

Should this Court determine that the Standard Chlorine rule is applicable to the facts in this case, it is

submitted that the issues raised by Armor that now remain with the District Court are essentially for damages Armor has sustained as a result of antitrust and patent law violations. No licensed product has ever been manufactured or sold by Armor anywhere or by MVIW in the territory described in the License Agreement. Thus, any equitable aspects of Armor's claims are merely incidental to the main relief requested of money damages.

POINT II

THE COURT MAY REVIEW THE DISTRICT COURT ORDER ENTERED OCTOBER 15, 1975 BECAUSE IT IS PART OF 9 U.S.C. §4 PROCEEDING WHICH GAVE RISE TO THE AUGUST 6, 1975 ORDER

Both the August 6, 1975 order and the October 15, 1975 order of the District Court arise out of MVIW's Petition to Compel Arbitration pursuant to 9 U.S.C. §4. The District Court order of August 6, 1975, directed arbitration to proceed. It also enjoined and restrained Armor from interfering with the status quo and from divulging confidential know-how to

third parties pending completion of arbitration (A. 175).[4/]

The District Court's October 14, 1975 Endorsement (A. 217), in response to Armor's motion for reargument of its motion to stay arbitration, in effect modified the earlier August 6, 1975 order. For the first time, the District Court expressly took notice of the antitrust issues and then excluded them from the scope of the arbitration proceeding.

It is well established that the District Court's order of August 6, 1975 compelling arbitration pursuant to 9 U.S.C. §4 is appealable under 28 U.S.C. §1291. Standard Chlorine of Delaware v. Leonard, supra.; American Safety Equipment Corp. v. J. P. Maguire & Co., 391 F.2d 821 (2d Cir. 1963); Interocean Shipping Co. v. National Shipping and Trade Corp., 462 F.2d 673 (2d Cir. 1972).

Since the first order is appealable, this Court, in its review of the District Court's first order, may also review the later discretionary order. It is not limited in

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4/ The August 6, 1975 order granting the restraining order is clearly appealable and it is well settled that such an appeal brings before this Court the entire order and not merely the propriety of the granting of the injunctive relief. Erving v. Virginia Squires Basketball Club, 468 F.2d 1064 (2d Cir. 1975).

the scope of its review to only one of the two orders appealed particularly since they both arise out of the same special proceeding under 9 U.S.C. §4. Mercury Motor Express, Inc. v. Brinke, 475 F.2d 1086 (5th Cir. 1973); Genosick v. Richmond Unified School District, 479 F.2d 482 (9th Cir. 1973); 9 Moore's Fed. Prac., §110.25 [1].

POINT III

UNDER THE TERMS OF THE AGREEMENT MVIW'S SUIT FOR SPECIFIC PERFORMANCE PRECLUDES ARBITRATION UNTIL LEGALITY OF AGREEMENT HAS BEEN ESTABLISHED

Article XI Section I of the Agreement provides:

> "In the event of any breach or threatened breach of this Agreement by either party it is mutually agreed that there is no adequate remedy at law in favor of the other party and that a suit for specific performance or for injunctive relief would be the only effective remedy for such latter party and nothing contained in Section 2 of this Article XI shall limit or preclude such right of specific performance and injunction, it being agreed that such rights are paramount and that the provisions of Section 2 of this Article XI are subject and subordinate to the provisions of this Section 1." (A. 50)

Thus, in Section 1 the parties agreed that a suit for specific performance shall be "paramount" to the provisions of Section 2 pertaining to arbitration which are subject to and subordinate to Section 1.

IW by instituting the proceeding in the District Court under 9 U.S.C. §4 sought specific performance of the Agreement and thereby brought the "paramount" provision of Section 1 into effect which must necessarily preclude arbitration under Section 2 until a determination has been made of all issues upon which specific performance hinges including the legality of the overall Agreement.

Based upon this provision, therefore, the District Court erred in staying the court action and failing to stay the arbitration proceeding which error is also appealable under 28 U.S.C. §1291.

CONCLUSION

The stay of District Court proceedings should be vacated and arbitration proceedings stayed until the court proceedings are concluded.

In the event this Court affirms the District Court's stay of court proceedings and direction to proceed with

arbitration it is respectfully urged that a determination be made as to which of the issues raised by Armor are non-arbitrable and which are arbitrable.

Dated: New York, New York
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Respectfully submitted,

SACKS, MONTGOMERY, MOLINEAUX & PASTORE
Attorneys for Respondent-Appellant
Armor Elevator Company, Inc.
Office and P. O. Address
437 Madison Avenue
New York, New York 10022
(212) 355-4660

William J. Pastore
-of counsel-